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January 31, 2005

Senator Connie Mack
Shaw Pittman
2300 N Street, NW
Washington, D.C. 20037

Re: President's Tax Reform Panel

Dear Senator Mack:

In the event that you may have missed it, I am enclosing copy of an article by Steven Moore, which was published in the Wall Street Journal last Thursday entitled "How Much Tax Would You Like to Pay." In that article, Steve reviews a plan he proposed about eight years ago, which would allow a taxpayer to elect to pay taxes based on a flat tax or based on the current impossible tax code. Steve points out that we already have two tax codes, because most of us have to calculate our tax based on both the normal code and the alternative minimum tax as well. Of course we must pay the higher of the two. Under Steve's plan a person could elect to pay the lower of the amounts determined by the flat tax and the regular tax code.

Steve and I served on the last board of "Citizens for an Alternative Tax (CATS)," which advocates a national retail sales tax, but both the sales tax and the flat tax are in effect consumption taxes, and would greatly stimulate the economy. We probably have a better chance of getting a flat tax at this time than the sales tax. Most economists agree that the flat tax and the sales tax would accomplish about the same things. The major difference is that the flat tax would not abolish the IRS, and would not be boarder adjustable. I know you remember Bill Archer saying the reason he supported the sales tax over the flat tax was because the flat tax would not likely stay flat. He wanted to abolish the IRS, because he said "if you leave the roots the tree will grow back." Steve's suggestion to require a two-third vote of both houses to increase the rate of the flat tax would probably solve that problem, but I don't know how you would make the congress abide by that unless we had a constitutional amendment limiting tax increases.

Based on the results of our last election, and the increasing prestige the President is likely to have, as a result of engineering the only democratic society in the middle east, he should have the political capital to do something with the tax code. I am sure that Steve Moore would be a great asset to your panel, because he knows all of the players on this issue. His cell number is 202-255-7406 in the event you would like someone to contact him.

I once served on the Taxation Committee of the U.S. Chamber of Commerce, and studied this subject extensively. During that time I prepared what I thought was the correct criteria to use for preparing a new tax code if you could start from scratch. I enclose a copy of that summary.

I had about given up hope of any substantial revision of the tax code until you were appointed to the new tax reform panel. If we are ever going to get anything done, we need to move while you are in that position. Please let me know if I can be of any help to you during this process. With best personal regard, I am

Yours very truly,

A handwritten signature in cursive script, appearing to read "Charles", written in dark ink.

L. Charles Hilton, Jr.

LCHjr/tg

How Much Tax Would You Like to Pay?

By Stephen Moore

Former Senators Connie Mack of Florida and John Breaux of Louisiana, the chairmen of President Bush's new tax reform panel, have been granted a historic opportunity to dramatically overhaul our economically debilitating federal tax system. The surest way for the tax panel to crack through the political gridlock that has paralyzed this issue for decades would be to endorse the Freedom to Choose Flat Tax. This is an idea that I first introduced on these pages exactly eight years ago—to an extraordinarily enthusiastic reception.

Financial Windfall

The potential economic gains for American workers and firms if the tax panel can get the job done are gigantic. For example, if the \$225 billion a year compliance costs attributable to the tax code could be cut in half, the financial windfall to the nation would be larger than the value of all goods and services produced by every worker and business in the states of Maine, Vermont and New Hampshire combined.

On top of that, economist Dale Jorgenson of Harvard University estimated several years ago that if the U.S. tax code were replaced with some kind of flat and simple consumption tax, the economy would grow about 10% faster. This would mean that instead of the economy growing at 4% per year, it could grow at almost 4.5% per year, and in that case the nation could expand its way out of many of its thorniest problems, such as low wage-rate growth, stubbornly high poverty rates, the \$413 billion budget deficit, and the decline in jobs in the manufacturing sector.

So the stakes are pretty darn high here, but almost no one believes that Sens. Mack and Breaux have much chance of succeeding. Most Washington insiders predict that the best that can be hoped for is a series of incremental reforms that would amount to tinkering. To me, this is like sending boxes of band-aids to the devastated Tsunami victims in Asia. There have been more than a dozen "tax reform" attempts in Washington over the last 30 years; yet after all of this "reforming," the tax code is as monstrously complex as ever. The tax code is now 3.5 million words long and IRS regulations are another 8 million words—together that's about 12 times the length of William Shakespeare's complete works, and 15 times the length of the King James Bible.

* * *

The central idea behind the Freedom to Choose Flat Tax is to create an optional post card flat tax, which would be offered to tax filers as an alternative to—rather than a replacement of—the current tax code. There would be no deductions whatsoever, except for a generous personal deduction and child deduction.

If this idea seems gimmicky or unworkable,

business capital purchases would be expensed, thus eliminating complicated depreciation schedules. Capital income—from capital gains, dividends, and estates—would also be taxed at 20%.

This plan would accomplish each of the major goals of tax reform. It would be: (1) sweeping in magnitude; (2) fair, because everyone would

*Your answers on a postcard
please . . .*

pay the same tax rate; (3) dramatically simpler than the current tax code; (4) an enormous boost to U.S. economic growth; and (5) politically feasible to adopt.

The last point is the most significant: This plan would allow tax reformers to avoid the grueling task of dredging the IRS tax code swamp. The plan would also steer clear of the kind of ferocious opposition from deep-pocketed special interest groups that inevitably leads to a political head-on collision where reform advocates suffer most of the casualties.

The advantages to this approach are manifold. First, there are no winners and losers as



David Gotthard

there are under conventional tax reform plans. Under this optional flat tax, no one is forced into a losing hand because every filer has the option of sticking with the current tax system. So the conventional complaint about a flat tax, that it would raise taxes on the middle class, is rendered null and void.

Second, the plan does not force people to give up "sacred cow deductions" for homeowners, or charitable givers, or owners of municipal bonds. If tax filers want the homeowners' deduction,

In the eight years since this plan was first proposed, I've heard one persistent objection: that it would dramatically reduce tax collections because people would game the system by filling out both tax forms and paying the lesser of the two.

I believe that most people would simply opt to be done with the complicated tax code immediately, even if it meant a slightly higher tax liability, just so they could avoid the migraine headaches and the enormous compliance costs of the current system. Last year the average tax filer at H&R Block, one of the least expensive tax preparers, paid \$130 in tax preparation costs. Rationally, they would be willing to pay at least up to \$130 more in taxes to have a post card return. On the corporate side of the tax code, it is currently estimated that tax compliance costs for firms amount to as much as two-thirds of all money collected from the corporate income tax. Hence, many companies, to avoid the nightmare of accounting and legal tax preparation costs, would also opt in to a flat tax even if their tax liability were somewhat higher.

Moreover, since polls consistently show that Americans do not believe that any taxpayer—even the super-wealthy Bill Gates, Warren Buffett, or Britney Spears, should be forced to pay more than 25% of their income in federal, state, and local taxes—this would cap the federal component at 20%. A broad tax base is also consistent with most Americans' notion of fairness. Two people with roughly the same income should pay roughly the same income tax. One neighbor should not pay less than the other because he invested in bull sperm, windmills, or tobacco farming—or because he has a crafty tax accountant.

Under the optional flat tax, every tax filer would be grandfathered into the old tax code as long as they wished; but once they migrated into the flat tax, they'd be in the flat tax system for good. All new workers would go immediately into the flat tax. Hence, over time, the old tax code would be essentially phased out and would soon become as obsolete as the rotary phone. The plan would require a two-thirds vote of both houses of Congress to raise the flat tax rate.

Hong Kong

For those who believe that such a system is completely unworkable, I would note that the famous and spectacularly successful Hong Kong flat tax of 15% is an optional income tax. Hong Kong has a convoluted "long form" tax system, but not many know about it because nearly all the workers favor the flat tax. And Hong Kong proves that flat taxes do not have to lead to budget deficits. In fact, Hong Kong has run a budget surplus in most years. Similarly, Russia's real income tax receipts have soared by more than 80% in just three years since it shelved its three brackets and 30% top rate and adopted its 13% flat rate income tax instead.

Sens. Mack and Breaux need to understand

CRITERIA TO BE USED FOR EVALUATING

ALTERNATIVE TAX SYSTEMS

1. **MUST RAISE REVENUE ANTICIPATED BY CURRENT CONGRESSIONAL PLAN TO BALANCE THE BUDGET BY THE YEAR 2002.** In other words, it should be revenue neutral considering the down sizing of government anticipated by the republican budget plan adopted by Congress, which will result in a balanced budget in seven years.

2. **TAX SHOULD BE VISIBLE SO THAT ALL AMERICANS WILL UNDERSTAND THE COST OF GOVERNMENT.** Those who earn and spend more money should pay more taxes proportionately, but at the same rate. All Americans, except the really poor, should have to pay some tax so that they will be less reluctant to follow Aristotle's prediction that "a democracy cannot long endure, because sooner or later its constituents will learn that they can vote unto themselves a dole." At the present time, about half of the people in America get a government check of some kind, and we cannot hope to rein in the stampede to socialism/statism unless all Americans realize they have a stake in saving this republic.

Those arguing for a flat tax to replace the income tax suggest that it will be more visible, particularly if the withholding tax is abolished as Representative Arney suggests and taxpayers are required to send in their own check on a periodic basis. They argue that no one will realize the total amount of sales tax paid during the year, and if a value added tax is adopted, it will be totally hidden. Representative Archer, Senator Lugar, and others advocating a national sales tax argue that such a tax would be visible in that every purchase made would reflect the amount of tax paid on that item and that tax added would be a constant reminder of how much it cost to run the government. Those arguing against the sales tax suggest that because of the difficulty of collecting from every retail business the sales tax will probably evolve into a VAT, which would be completely hidden. At this point, there seems to be very little support for a VAT, but considerable support for the Arney flat tax, and growing support for a national sales tax. It would appear that either the Arney flat tax where payments had to be made monthly or a 19-percent broadly based national sales tax would get everyone's attention and make them less interested in having government do things for them, which they could and should do for themselves.

3. **WILL THE NEW TAX STRUCTURE ENDURE? REGARDLESS OF WHAT TAX SYSTEM IS ULTIMATELY SELECTED, RAISING TAXES SHOULD REQUIRE A SUPER MAJORITY OF BOTH HOUSES OF THE CONGRESS. THERE SHOULD BE A CONSTITUTIONAL AMENDMENT REQUIRING A TWO-THIRDS OR AT LEAST A THREE-FIFTHS MAJORITY OF BOTH HOUSES OF CONGRESS TO INCREASE TAXES AND FEES REGARDLESS OF WHAT TAX SYSTEM WE HAVE.** One of the problems with the present income tax system is that there have been numerous major revisions of the code under the guise of "tax reform," where the real purpose is to raise additional revenue. The 1986 Tax Reform Act broadened the tax base and lowered the marginal rate, but additional brackets and higher marginal rates were enacted in 1990 and again in 1993. One of the main flaws of the flat tax is the ease with which Congress can increase the marginal rate, grant special privileges to some, and

penalize others. Some have suggested a constitutional amendment requiring a super majority to raise taxes. If there is a sufficient public need to justify taking money for the private sector for the use and benefit of the public sector, the advocates of such a move should be able to convince a super majority of the Congress to vote for an increase in taxes. However, the requirement of a super majority would make it less likely that politicians will be able to continue confiscating the wealth of marginal taxpayers or from the private sector generally for transfer payments to or on behalf of particular constituencies. This should help us rid ourselves of the "I brought home the bacon" syndrome unless the "bacon" benefits the entire country and not a single constituency. Polls show that if this super majority requirement to raise taxes is submitted to the American people it would pass by a substantial margin at this time.

Some of those arguing for the flat tax and against the sales tax have suggested that unless the 16th Amendment were repealed, we would eventually have both an income tax and a sales tax which would promote increased growth of government. The National Taxpayers Union's publication "Dollars & Sense" in its May/June issue suggested that a tax limitation constitutional amendment would be much easier to pass than a measure repealing the 16th Amendment, and that such a tax limitation amendment could restrict the income tax to one rate, require a super majority to pass higher taxes, or even require voter approval for higher tax rates. A properly drafted tax limitation constitutional amendment could indeed make it much more difficult for taxes to be increased in any manner either by adding an income tax to a sales tax or increasing the rates of a flat tax or sales tax. Whatever system is ultimately selected, it is imperative that some form of tax limitation amendment be adopted to prevent Congress from continually tinkering with the code calling it tax reform when they are really trying to raise additional revenue or do special favors for some industry or group.

4. **SHOULD BE AS ECONOMICALLY NEUTRAL AS POSSIBLE SO THAT PERSONAL, OCCUPATIONAL, PROFESSIONAL, SAVING, INVESTING, AND OTHER BUSINESS DECISIONS WILL BE MADE STRICTLY ON THE BASIS OF ECONOMIC CONSIDERATIONS AND NOT BECAUSE OF THE INFLUENCE OF TAX POLICY.** The current tax system penalizes work, saving, and investment. We tax the income stream by at least four times, and in some cases more: (1) corporate taxes; (2) personal taxes; (3) interest and dividends on savings and investments; (4) capital gains from sale of capital assets bought from savings; and (5) estate and gift taxes. High marginal rates and capital gains taxes dissuade earning, saving, and investing. According to the U.S. Department of Commerce, our national net savings rate in the 1990's has been 1.8-percent of gross domestic product compared with 8.1-percent in the 1960's, 7.2-percent in the 1970's, and 3.7-percent in the 1980's. This is significantly less than any of the major industrialized countries of the world (one-ninth that of Japan and one-fifth that of Germany). There is a consensus among economists that this low savings rate will spell disaster for our economy and standard of living in future years, and that it will result directly from our Karl Marx inspired tax system which punishes those that work, save, and invest by attempting to level the amount of wealth held by all Americans. Economist Laurence Kotlikoff of Boston University is of the opinion that our savings rate would more than triple in the first year under a broad based consumption tax. Economist Dale Jorgenson of Harvard University opines that if a national sales tax had been put in place in 1986 instead of the present system, we would have experienced an additional \$1 trillion in economic growth in this country, and the U.S. living standards would be increased by as much as 14-percent. Michael Boskin, Professor of Economics and Senior fellow at the Hoover Institution,

Stanford University, states that as a result of the 1993 tax increase, personal savings in this country declined at about a \$60 billion annual rate. We know that when tax rates were reduced during President Kennedy's administration, total revenues collected by the government increased significantly. We also know that the same thing happened when Ronald Reagan was President -- lower tax rates resulted in increased total revenue for the government. Lower marginal tax rates also resulted in the wealthy paying a larger percentage of the total taxes paid.

The marriage penalty and bracket creep actually dissuade marriage and encourage illegitimacy. The tax system should not be used to influence economic or personal decisions -- it should not be used for social engineering, but instead to raise revenue needed for government functions with the least possible effect on personal and business decisions. Everything else should be allowed to be controlled by the market.

The income stream should be taxed only once and at one rate. The high marginal rates should be eliminated. Both the flat tax and national sales tax could be designed to do this. Nearly all economists agree that a tax system such as the Hall/Rabushka flat tax proposed by Representative Dick Armey (the Freedom and Fairness Restoration Act) or a national sales tax as proposed by House Ways and Means Chairman Bill Archer if enacted to replace the income tax, capital gains tax, and estate and gift tax would result in significant economic growth and increase in the standard of living for all Americans. It is generally conceded that the Armey flat tax and a national sales tax would have practically the same effect on promoting growth, economic development, and a higher standard of living for everyone. However, the sales tax advocates suggest that the flat tax would be too easily unflattened or increased, and would leave in place the IRS. The flat tax advocates argue that the simplicity and visibility of the flat tax would impede change and if more assurance is needed, a constitutional amendment requiring a super majority of Congress to raise taxes would solve the problem.

5. **SIMPLICITY -- SHOULD BE COST EFFICIENT TO CALCULATE AND COLLECT.** Dan Pilla, author of a new book "Fire the IRS," reported that the tax code is so complex that most Americans use a professional tax preparer, and that 70-percent of the tax returns filed with tax preparers were for citizens making less than \$50,000 annually. He also reported an experiment by Money Magazine in 1992 where they gave 48 tax accountants a financial profile of the magazine's typical reader and asked them to prepare a hypothetical tax return. They got 48 different answers as to the amount of tax owed ranging from \$16,219 to \$46,564.

Representative Dan Schaefer, in his testimony before the House Ways and Means Committee, offered the following quotation from Federalist paper number 62, published two centuries ago:

It will be of little avail to the people that the laws are made by men of their own choice, if the laws be so voluminous that they cannot be read, or so incoherent that they cannot be understood; if they be repealed or revised before they are promulgated, or undergo such incessant change that no man, who knows what the law is today, can guess what it will be tomorrow.

I shudder to think of what the author of Federalist paper number 62 would think of the federal income tax code and the 17,000 pages of regulations interpreting it today. No one would argue that it is simple. It can't be fixed by reform. We must start all over again with a completely new system.

According to official estimates in 1990, American individuals and businesses spent more than 5.4 billion man-hours computing their taxes. Economist Walter Williams calculates that this was more man hours than used to build every car, van, or truck in the United States last year. Author James Payne puts the cost of these hours at about \$250 billion per year or about one-third of what the federal government collects from individual and corporate income taxes. Political Scientist Payne estimated that the actual cost of the tax system (compliance, cost plus economic disincentive) was \$618.1 billion in 1990. Pilla estimates that currently the total cost of complying with the federal tax system is approximately \$700 billion annually. Today there are over 800,000 words in the income tax code and there are over 45 million words of income tax regulations. Since 1986, according to Representative Dan Schaefer who advocates a national sales tax, there have been 4,000 provisions either adding, amending, or repealing sections or subsections of the Internal Revenue Code. Obviously, when the cost of compliance equals or exceeds the amount collected in taxes, it's time to scrap the existing system and start all over instead of trying to reform or tinker with the existing law.

Both the Arney flat tax and the Archer national sales tax would substantially reduce the complexity -- the cost of compliance and collection of federal tax. However, the Arney flat tax would leave the IRS intact, and as Chairman Archer has stated "if the roots remain, the tree will grow back." Obviously, the flat tax would be easier to transition to, and the IRS would still be there all \$8 billion strong to collect it. Some proponents of this national sales tax would have the states collect the national tax along with the state tax. However, some five states currently do not have sales taxes, and the base would vary from state to state. In any event, businesses could be paid for collecting the sales tax from consumers, and the federal government collecting from businesses would be considerably simpler than the current tax system.

Annual reports of the IRS indicate that 44-percent of the 30 million penalties assessed each year are wrong. The government accounting office reports show the IRS audit results are wrong 50-percent of the time, and that 50-percent of the notices of deficiency are incorrect. If each of the 48 tax professionals conclude a 48 different amount of tax is owed by the same taxpayer, it is obvious we need to do as Chairman Archer suggested and pull the income tax out by its roots.

The 1986 Tax Reform Act broadened the base as a trade off for lowering the rates, and it did result in economic growth, although few would argue that the code was simplified by the 1986 Tax Reform Act. However, the tax rates were again raised in 1990 and substantially increased again in 1993. We have had major tax reforms or fundamental tax reforms in 1978, 1981, 1982, 1983, 1985, 1986, 1990, and 1993.

Advocates of the national sales tax argue that history shows we could move to a better "flat tax system" only to have it undone shortly thereafter. They argue that this together with getting rid of the IRS as we know it more than justifies some difficulty in transitioning from an income tax to a sales tax. One could argue that we could pay retail establishments a reasonable fee for their

collecting the tax and still save most of the amount currently being spent for computing and collecting the income tax. Whether the tax is collected through the states or through some Federal Department of Revenue, the simplicity and cost of collection of a national sales tax would be far superior to the existing system, and would avoid the potential for the IRS tree to grow again from the roots of the flat tax. However, either the Armeey Flat Tax or the Archer Sales Tax to replace the existing system would be wonderful compared to what we now have.

6. THE NEW SYSTEM SHOULD ENHANCE CIVIL LIBERTIES, PERSONAL FREEDOM, AND REDUCE THE ABUSIVE, GESTAPO LIKE PRACTICES OF THE IRS.

Fred Goldberg, the Commissioner of the IRS under George Bush, stated "the IRS has become a symbol of the most intrusive, oppressive, and non-democratic institution in a democratic society." Since 1985, Congress has doubled the IRS budget to \$8 billion. According to Stephen Moore, director of fiscal policy studies at the Cato Institute, the IRS is one of the government's fastest growing non-entitlement programs. The IRS has announced that it will embark upon super tough audits during the remaining portion of this year and during 1996. The IRS can, without a court order, levy against wages, bank accounts, seize property, and obtain our personal records. In most every claim made by the IRS, the taxpayer is presumed guilty and must prove his innocence, unlike even the common criminal who is presumed innocent until proven guilty.

Even though the IRS is wrong about 50-percent of the time, it holds the average citizen to a much higher standard of compliance. Through tough preparer penalties, the IRS has made the taxpayers' own tax consultants in effect advocates for the IRS. More recently, the IRS announced its plans to provide the service with on line access to records held in all public and private data bases. They also announced plans to make increasing use of "lifestyle audits" where they guess how much money a person makes by examining his or her lifestyle. Given the presumption of correctness when the IRS asserts any deficiency, most lawyers and accountants familiar with the tax law fear this will result in unjust settlements in favor of the IRS and further loss of personal freedom and privacy. Because of the tremendous arsenal of weapons in the IRS repertoire, most every deficiency asserted results in the taxpayer settling the audit by paying tax which in many cases he doesn't feel is legally owed.

Although the flat tax will be considerably simpler, and should eliminate much of the IRS discretion, it is nevertheless an income tax and leaves the IRS intact. Pilla (tax litigation consultant in St. Paul, Minnesota, and author of the book "How to fire the IRS") argues "because lifestyle audits are so broad, we can expect recording keeping requirements to increase, not decrease, under a flat tax." There will be a tendency for the agency to look for something to justify its agents on the payroll and the lifestyle audits they have already announced will provide plenty of work for both the IRS and the taxpayer trying to prove the audits wrong. One could argue that since the IRS will have less discretion in computing the tax on a given income, they will have more time for the lifestyle audits to try and prove that income is understated. Pilla argues that the 1.3 billion information returns currently filed with the IRS, such as IRS forms 1099 and W-2, will increase significantly with the flat tax as the IRS traces every nickel we earn.

Since the sales tax is paid with each retail sale, individuals would not have to share with the federal government the extent and sources of their income. The IRS as we know it today could be

abolished, or at least converted to a much smaller Department of Revenue whose primary responsibility is collection of sales tax through retail sales establishments.

It would appear that either the flat tax or the sales tax initially would reduce the abusive Gestapo like practices of the IRS, but as Chairman Archer says "if the roots remain, the tree will grow back." The sales tax would better meet this criteria.

7. **FAIRNESS.** Some would argue that a truly fair tax would be one where all individuals share equally the cost of government. The other extreme was stated by Karl Marx in his communist manifesto in 1848. A heavy progressive income tax was the second priority of Marx after private property rights were abolished. Marx believed that all profit came from exploitation, and he, therefore, wanted the government to confiscate everything above what he considered reasonable compensation for labor only. Obviously, neither of these extremes will work. Under any tax system there will always be some individuals who simply do not have the money to pay for their share of government, which means that others with more resources must pick up the tab for them. Every country in the world except America and Cuba has learned that "capitalism" is good for everyone and that Marxism/socialism won't work, and is also unfair. However, it is also equally obvious that the current system is very unfair. Steven J. Entin of the Institute for Research on the Economics of Taxation in remarks to the Bank Administration Institute in May of this year stated:

The ultimate unfairness issue is that the current tax system penalizes initiative, saving, and investment, and depresses productivity, wages, and employment. Everyone could be better off under a sensible tax system. This is fair. Let's get on with it.

Both the Arme y flat tax and the national sales tax being proposed would exempt lower income people from paying tax -- the flat tax by high personal exemptions, and the sales tax by either a rebate or exempting necessities. Both the Arme y flat tax and the sales tax would essentially be consumer based taxes and would reward rather than penalize savings. The consensus among economists is that if put in place and left alone the Arme y flat tax and the proposed national sales tax would have about the same effect on encouraging people to work, save, and invest, and thus encourage economic growth.

In his explanation of the "Freedom and Fairness Restoration Act," Representative Dick Arme y shows that high marginal income tax rates discourage savings, work, and investment, and on the fairness issue states:

Thanks to soak the rich tax hikes in recent years, the highest marginal income tax rate at the federal level today is 42-percent. When state taxes are included in the calculation, many individuals pay more than half of their earnings in taxes. Who pays these "soak the rich" taxes? Studies show that these high income tax rates apply in large part to small business owners who are a major source of new jobs. Paradoxically, punitive tax rates designed to soak the rich have tended to erode economic opportunities for lower and middle income

class workers. For example, in the 1980's, after President Reagan cut income tax rates, the share of income taxes paid by the wealthiest 1-percent of Americans rose from 22 to 26-percent. But, since the 1990 tax increases, the share of taxes paid by the rich has fallen from 26-percent to 23-percent.

The Heritage Foundation notes that the typical middle income family of four paid just 2-percent of its income in taxes in 1948, but today that same family pays about 24-percent of its income to the federal government in taxes. Obviously, the present system requires the average American family to pay a lot of tax even though we have such high marginal rates. Both the Arney flat tax and the national sales tax would result in higher income people paying proportionately higher taxes as they consumed more. If the higher income people chose to save more and thus provide more capital for additional jobs, etc., they would not pay as much tax as if they chose to consume a larger portion of their income. That seems fair.

Ed Crane of the Cato Institute, in commenting on Dick Arney's flat tax, proposal as compared to a national sales tax, stated that the Arney proposal had been very carefully constructed, and if left alone by politicians, would have virtually the same economic impact as the sales tax. The problem is -- and this is where the civil libertarian aspect comes in -- that the flat tax remains a tax on income and keeps in place the Internal Revenue Service. The retail sales tax abolishes both.

In his remarks before the House Ways and Means Committee, Representative Dan Schaefer who advocates a national sales tax to replace the income tax made the following statement:

The income tax is expensive; it is complex; it changes without warning; it has spawned numerous lobbyists who manner the tax code to benefit the politically powerful; it has invaded our privacy; and, it discourages savings, investments, and productivity needed for renewed economic growth. Despite the good intentions of the fathers of the income tax code, we now know that the income tax is not the "fairest and cheapest of all taxes." We in Congress need to recognize that the income tax has failed. It is now time to look at a totally different way of financing government spending -- before it is too late.

Both the flat tax and the national sales tax now being proposed would exempt poor people from paying any substantial amount of tax, although, depending upon where the poverty level is established, most people should be required to pay at least some tax. Under both the flat tax and the national sales tax, people who earned and consumed more would pay proportionately more taxes, but the rate would be the same for everyone. Those who earned and consumed more would pay more with a safety net for poor people. In addition, either of these taxes would produce the economic growth we need for everyone's standard of living to be raised so that the poor people could aspire to graduate from poverty. That is fairness.

8. SHOULD KEEP AMERICAN GOODS COMPETITIVE WITH THOSE OF

FOREIGN PRODUCE. Those advocating a national sales tax argue that eradicating the income tax entirely would eliminate tax penalties against the American firms that do business over seas, thus reducing the trade deficit without hurting the value of the dollar. They suggest that exports would receive a big boost. They suggest that most of our trading partners have tax systems that are border adjustable, meaning that the taxes are not placed on exports. The income tax and the flat tax are not border adjustable. Senator Lugar in urging the national sales tax states:

American goods that are sent over seas are taxed twice -- once by the income tax and once when reaching their destination. In comparison, the national sales tax would not be levied on exports. It would level the playing field with our trading partners. And best of all, foreign imports would be taxed when they are consumed in the United States."

Most of us do not stop to realize that all taxes are ultimately included in the price of goods and services and are paid for by the consumer. Thus, the cost of any tax that is not border adjustable becomes a part of the price of exported goods. Today's tax structure, therefore, tends to exacerbate our balance of trade problem. A national sales tax would help alleviate that problem directly by reducing the cost of exported goods, and indirectly by increasing the productivity and efficiency of our economy.

9. **THE SYSTEM SHOULD TAX THE "UNDERGROUND ECONOMY."**

Representative Schaefer states:

The U.S. Treasury Department estimates that it is unable to collect over \$125 billion in income taxes every year. A national sales tax would help recoup this loss, ending evasion and lessening the tax burden on hard-working, law-abiding citizens. A point-of-sale retail tax would be much more effective at tapping the underground economy than today's despised, loophole-ridden income tax.

Senator Lugar states:

When criminals and illegal aliens consume the proceeds of their activities, they will pay a tax. Foreign tourists will pay the tax. Tax systems that rely on income reporting will never collect any of this revenue.

Of course, criminals would still not pay sales tax on illegal sales of drugs or stolen goods, but would pay some tax when they buy things with their illegal profits.

SENATOR CONNIE MACK



Dear Charlie,

Thanks for your letter Stone's aside
and the "certain" to be used in conducting attention
the systems. You right that requiring a 2/3 vote
to change the rules would be helpful but may hard
to get passed.

Thanks again for your input.

Sincerely,
Connie